



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

February 4, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Chelsea, Iowa for the period April 1, 2017 through March 31, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible and establish procedures to prepare bank reconciliations and to reconcile utility billings, collections and delinquent accounts. In addition, the City should adopt a written investment policy and a resolution naming official depositories in accordance with the Code of Iowa.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

CITY OF CHELSEA

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2017 THROUGH MARCH 31, 2018**

Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	8-9
Financial Condition	D	9
City Library	E	9
Library Debit Card	F	9
City Fire Department	G	9
Separately Maintained Records	H	9-10
Receipts	I	10
Deposits and Investments	J	10
Monthly City Clerk’s Report	K	10
Annual Financial Report	L	10-11
City Council Meeting Minutes	M	11
Timesheets	N	11
Electronic Check Retention	O	11
Disbursements	P	11
Journal Entries	Q	11
Staff		12

City of Chelsea

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Craig Forcht	Mayor	Jan 2018	Jan 2022
Aaron Balvin	Council Member	Jan 2016	Jan 2020
Dixie Forcht	Council Member	Jan 2016	Jan 2020
Steve Van De Walle	Council Member	Jan 2016	Jan 2020
Doris Frese	Council Member	Jan 2018	Jan 2022
Amy Walters	Council Member	Jan 2018	Jan 2022
Dianna Dunning	City Clerk/Treasurer		Indefinite
Mike Marquess	Attorney		Indefinite

City of Chelsea



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Chelsea for the period April 1, 2017 through March 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Chelsea's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Chelsea during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



ROB SAND
Auditor of State

December 17, 2018

Detailed Recommendations

City of Chelsea

Detailed Recommendations

April 1, 2017 through March 31, 2018

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Investments – recordkeeping, investing and reconciling earnings.
 - (3) Debt – recordkeeping and debt payment processing.
 - (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (5) Utilities – billing, posting collections, entering rates into the system, depositing and maintaining detailed accounts receivable and write-off records.
 - (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing checks.

For the Chelsea Fire Department account, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to the bank and investment account balances throughout the year. At March 31, 2018, the City’s bank and investment balances totaled \$223,275 which was \$8,942 higher than the balance in the City’s balance sheet of \$214,333.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

City of Chelsea

Detailed Recommendations

April 1, 2017 through March 31, 2018

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Financial Condition – At June 30, 2017, the City had deficit balances of \$7,867 and \$956 in the General and Capital Projects Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial condition.

- (E) City Library – Pre-numbered receipts were not issued for collections and bank reconciliations were not prepared.

Recommendation – Pre-numbered receipts should be issued for all collections. Procedures should be established to ensure bank account balances are reconciled to book balances monthly. Documentation of the reconciliations should be retained and any variances should be reviewed and resolved timely.

- (F) Library Debit Card – The Library has used a debit card for various purchases. During the period reviewed, we tested 3 debt card purchases which appeared appropriate.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the City Library. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (G) City Fire Department – Pre-numbered receipts were not issued for collections, invoices or other supporting documentation for disbursements were not properly retained and bank reconciliations were not prepared.

Recommendation – Pre-numbered receipts should be issued for all collections and invoices or other supporting documentation should be retained for all disbursements. Procedures should be established to ensure bank account balances are reconciled to book balances monthly. Documentation of the reconciliations should be retained and any variances should be reviewed and resolved timely.

- (H) Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Clerk maintains a checking account, savings account and three certificates of deposits for the Library which are not included in the City Clerk’s accounting records. In addition, the City of Chelsea Fire Department maintains a separate checking account from the City Clerk’s accounting records. While these Departments are part of the City, the transactions and resulting balances of these separate accounts are not included in the City’s accounting records and are not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

City of Chelsea

Detailed Recommendations

April 1, 2017 through March 31, 2018

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account's receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire and Library Department separate accounts should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (I) Receipts – Pre-numbered receipts are not issued for all collections.

Recommendation – Pre-numbered receipts should be issued for all collections.

- (J) Deposits and Investments – An investment register was not maintained for each investment. Also, the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – An investment register which includes the cost, description, date purchased, interest rate, maturity date and identifying number for each investment should be maintained. In addition, the City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (K) Monthly City Clerk's Report – Monthly City Clerk's reports were not provided to the City Council throughout the year.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes a summary of receipts, disbursements, transfers and balances by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include comparisons to the certified budget by function. The City Council should review and approve the City Clerk's reports monthly.

- (L) Annual Financial Report – The beginning fund balances for the governmental and proprietary activities in the June 30, 2017 Annual Financial Report (AFR) did not agree to the prior year ending balances. Property tax receipts of \$10,233 were recorded in the Debt Service Fund although the City did not have a debt service levy for fiscal year 2017. In addition, the AFR incorrectly included \$11,425 of debt payments under the public works function instead of the debt service function.

City of Chelsea

Detailed Recommendations

April 1, 2017 through March 31, 2018

Recommendation – The City should determine the correct fund to which the \$10,233 of property tax receipts should have been posted and transfer the receipts to that fund to correct the error. The City should ensure future Annual Financial Reports agree with City records.

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published (or posted if City population is less than 200) within fifteen days of the meeting, including a list of all claims allowed, a summary of receipts and total disbursements by fund. In 2011, the City approved an ordinance stating the City would post rather than publish minutes although the City's population exceeds 200 and publishing of minutes is required. Minutes for four meetings tested were posted but not published as required. In addition, minutes for four meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should publish City Council meeting minutes in accordance with the Code of Iowa. In addition, minutes for all meetings should be signed to authenticate the actions taken, as required.

- (N) Timesheets – Timesheets for certain hourly employees are not reviewed and approved by supervisory personnel prior to preparation of payroll.

Recommendation – Procedures should be established to ensure all timesheets are reviewed and approved by supervisory personnel prior the preparation of payroll. The supervisory review should be documented by the supervisor's initials and the date of the review.

- (O) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (P) Disbursements – Invoices or other supporting documentation was not available for 3 of 30 disbursements tested from the City's bank account.

Recommendation – All disbursements should be supported by invoice or other supporting documentation.

- (Q) Journal Entries – Supporting documentation is not maintained for journal entries. In addition, journal entries are not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained to substantiate all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented.

City of Chelsea

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Ashley J. Moser, Senior Auditor
Michaela M. Goergen, Assistant Auditor


Marlys K. Gaston, CPA
Deputy